

Exhibit XII – Bond Rating

Summary:

**Waukesha Water Utility, Wisconsin;
Water/Sewer**

Primary Credit Analyst:

Scott D Garrigan, New York (1) 312-233-7014; scott.garrigan@spglobal.com

Secondary Contact:

Melody W Vinje, Centennial + 1 (303) 721 4163; melody.vinje@spglobal.com

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Summary:**Waukesha Water Utility, Wisconsin; Water/Sewer****Credit Profile**

US\$0.0 mil ICR due 12/31/2099

Long Term Rating

AA-/Stable

New

Rationale

S&P Global Ratings assigned its 'AA-' issuer credit rating (ICR) to Waukesha Water Utility, Wis. The outlook is stable.

Our rating reflects our assessment of the utility's very strong enterprise and financial risk profiles and incorporates its expectation for additional debt related to securing a new water source for its customers. At this time, the utility estimates the pipeline construction to begin in 2020 with the switch from the existing aquifer supply to be by 2023. It will then purchase its water from the city of Milwaukee pursuant to an agreement signed in 2017. When the project is completed in 2023, the utility could have as much as \$200 million of debt (which includes utility-supported general obligation [GO] bonds) outstanding, although it is our understanding that the actual amount may be lower depending on construction costs. As of Dec. 31, 2018, the utility had \$64 million of outstanding GO debt and revenue bonds payable.

To finance these projects, the city's water and sewer rates are increasing substantially, although these planned hikes are still consistent with the current rating, in our view, because monthly-equivalent rates are currently low at \$21.40 (see calculation details below). Planned annual percentage increases in water rates are projected by the city to be 110% through 2027, which effectively would result in about a 300% hike in water rates from current levels. If additional rate increases are needed due to changes to the utility's operating profile or debt needs over that timeframe, we could lower the rating. While sewer rates are not explicitly accounted for in our methodology because the utility only provides water service, we understand that sewer rate increases are also occurring and inform our view on overall affordability for customers.

While we expect the utility's overall financial profile to remain consistent with the rating level, current projections indicate that all-in debt service coverage (DSC) will be pressured downward from 2022-2024 that could produce net revenues less than all-in debt service costs on all debt being paid from water utility revenues. During this time, it is our understanding that most of the construction costs will have been incurred but additional rate increases would still be phasing in, creating a short-term cost and revenue mismatch. As additional debt is phased in to finance the pipeline project, we will compare the existing projections to both future projections and actual financial results, and if there are significant negative variances, we could lower the rating.

The enterprise risk profile reflects our view of the following factors:

- The service territory is primarily residential in Waukesha County and serves primarily customers in the city of Waukesha. Residents benefit from participation in the broad and diverse Milwaukee-Waukesha-West Allis

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metropolitan statistical area.

- Water rates that we generally consider affordable. We benchmark our assessment of rates based on average monthly residential usage reported by management of 4,000 gallons, Waukesha's median household effective buying income at 106% of the national average, and Waukesha County's 5.8% poverty rate. For 4,000 gallons of usage, monthly equivalent rates are \$21.40 (converting the \$27 quarterly charge to monthly and adding in additional usage charges to reach 4,000 gallons per month).
- Operational management policies that we view as good, and include management's effort to raise rates as needed and supported by the state's public service commission (PSC) and a distribution-system replacement and maintenance program that replaces 1% each year. Given the complexities of navigating the legal hurdles to establish a new water source that crosses into the Great Lakes watershed, we consider management's ability to establish a detailed capital plan to address long-term supply as supportive of the rating.

The financial risk profile reflects our view of the following factors:

- DSC that has been around 2x for the prior two audited fiscal years. That figure nets out the utility's payments in lieu of taxes and includes GO debt service. We include these amounts because our rating methodology assesses coverage based on all-in fixed costs and transfers instead of solely revenue bond DSC.
- Unrestricted cash and investments totaling \$33.6 million in 2018 represented over 4.5 years' cash, but as capital projects are phased in, it is our understanding that the amount of cash on hand could fluctuate depending on the timing of when cost reimbursements are made from bonds or other funding sources.
- Financial management policies that we consider generally good, and include regular review of rates and budget performance, the maintenance of long-term capital and financial planning, and audits based on generally accepted accounting principles.

Outlook

The stable outlook reflects our expectation that as additional debt is issued to finance the city's new water supply, the utility will continue to make appropriate adjustments to its expense and revenue base to accommodate the additional debt service costs. Our view is supported by historically consistent rate increases supported by the state PSC that we would expect to continue given the regional importance of the new water supply project.

Downside scenario

As additional debt is phased in to finance the pipeline project, we will examine audited financial results to ensure that any volatility in financial performance is related solely to project construction and not systemic to the financial profile of the utility. If negative financial variances occur, we could lower the rating. In addition, as mentioned above, any additional rate increases needed above what is currently planned for could also cause downward pressure on the rating.

Upside scenario

We do not expect to raise the rating over the two-year outlook horizon, and potentially through the entirety of the pipeline project construction and rate increase timeline because of the potential for financial volatility that is likely to occur throughout that time.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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